

KNOXVILLE MUNICIPAL WATERWORKS ¹⁴

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENT
OTHER INFORMATION
SCHEDULE OF FINDINGS

Year Ended June 30, 2021

TABLE OF CONTENTS

	<u>Page</u>
Officials	3
Independent Auditor's Report	5-6
Financial Statement:	<u>Exhibit</u>
Statement of Cash Receipts, Disbursements and Changes in Cash Balance	A 8-9
Notes to Financial Statement	10-16
Other Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balance - Budget and Actual	18 19
Notes to Other Information - Budgetary Reporting	20
Schedule of the Waterwork's Proportionate Share of the Net Pension Liability	21
Schedule of Waterworks Contributions	22
Notes to Other Information - Pension Liability	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of a Financial Statement Performed in Accordance with <u>Government</u> <u>Auditing Standards</u>	23-24
Schedule of Findings	25-28

KNOXVILLE MUNICIPAL WATERWORKS

OFFICIALS

(Before April 2021)

Name	Title	Term Expires
Merle Vickroy	Chair	April 2021
Dwight Sommar	Trustee	April 2023
Kathy Caviness	Trustee	April 2025
Brian Bailey	General Manager	Indefinite
Michael Lane	Attorney	Indefinite

(After April 2021)

Merle Vickroy	Chair	April 2027
Dwight Sommar	Trustee	April 2023
Kathy Caviness	Trustee	April 2025
Brian Bailey	General Manager	Indefinite
Michael Lane	Attorney	Indefinite

Knoxville Municipal Waterworks



FALLER, KINCHELOE & Co, PLC

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of the
Knoxville Municipal Waterworks:

Report on the Financial Statement

We have audited the accompanying financial statement of the Knoxville Municipal Waterworks, Knoxville, Iowa (Waterworks), as of and for the year ended June 30, 2021, and the related Notes to Financial Statement, which collectively comprise the Waterworks' financial statement listed in the table of contents.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Waterworks' preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Waterworks' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statement referred to above presents fairly, in all material respects, the respective cash basis financial position of the Waterworks as of June 30, 2021, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As discussed in Note 1, this financial statement was prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the Waterworks' financial statement.

The other information, the Budgetary Comparison Information, the Schedule of the Waterwork's Proportionate Share of the Net Pension Liability and the Schedule of Waterworks Contributions on pages 18 through 22 has not been subjected to the auditing procedures applied in the audit of the basic financial statement and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 13, 2021 on our consideration of the Waterworks' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Waterworks' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Waterworks' internal control over financial reporting and compliance.



Faller, Kincheloe & Co., PLC

September 13, 2021

Financial Statement

KNOXVILLE MUNICIPAL WATERWORKS

Exhibit A

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES
IN CASH BALANCE

As of and for the year ended June 30, 2021

	Enterprise Fund Water
Operating receipts:	
Sale of water	\$ 1,723,247
Customer service charges	11,596
Penalty fees	29,964
Collection fees from City	45,833
Disconnet fees	9,330
Sales and WET tax collections	52,196
Customer deposits	36,515
Miscellaneous	15,415
Total operating receipts	<u>1,924,096</u>
Operating disbursements:	
Salaries and wages	508,967
Payroll taxes	42,298
Retirement benefits	100,301
Health insurance	100,354
Insurance	70,610
Memberships and fees	3,691
Education	200
Water testing	2,259
Audit fees	9,175
Publishing fees	1,094
Legal and engineer fees	75,067
Maintenance contracts	23,259
Building maintenance and utilities	5,562
Banking fees	11,513
Janitorial	2,871
Office and postage	28,178
Economic development expense	25,000
Distribution maintenance	81,892
Rock and cement	38,696
Fuel	6,459
Maintenance and supplies	26,011
Utilities	119,910
Chemicals	87,577
Sales and WET tax paid	52,698
Customer deposits	33,145
Total operating disbursements	<u>1,456,787</u>
Excess of operating receipts over operating disbursements	<u>467,309</u>

See notes to financial statements.

KNOXVILLE MUNICIPAL WATERWORKS

Exhibit A

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES
IN CASH BALANCE

As of and for the year ended June 30, 2021

	Enterprise Fund Water
Non-operating receipts (disbursements):	
Interest on investments	\$ 28,945
Rental income	21,575
Sewer rental and storm water fees collected for City	2,638,015
Sewer rental and storm water fees remitted to City	(2,638,015)
Capital outlay	(882,054)
Net non-operating receipts (disbursements)	(831,534)
Change in cash balance	(364,225)
Cash balance beginning of year, as restated	2,379,823
Cash balance end of year	\$ 2,015,598
Cash Basis Fund Balance	
Restricted for customer deposits	\$ 86,040
Unrestricted	1,929,558
Total cash basis fund balance	\$ 2,015,598

See notes to financial statements.

KNOXVILLE MUNICIPAL WATERWORKS

NOTES TO FINANCIAL STATEMENT

June 30, 2021

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Knoxville Municipal Waterworks (Waterworks) is a component unit of the City of Knoxville, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board. The Waterworks is governed by a three-member board of trustees appointed by the Mayor, subject to the approval of the City Council, which exercises oversight responsibility under this criteria.

B. Basis of Presentation

The accounts of the Waterworks are organized as an Enterprise Fund. Enterprise funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services supported by user charges.

Enterprise funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an Enterprise Fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

C. Basis of Accounting

The Waterworks maintains its financial records on the basis of cash receipts and disbursements and the financial statement of the Waterworks is prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statement does not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

D. Fund Balance

Funds set aside for customer deposits are classified as restricted.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

Note 2. Cash and Pooled Investments

The Waterworks' deposits at June 30, 2021 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Waterworks is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Water Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

Note 2. Cash and Pooled Investments (continued)

The Waterworks had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$580,829. There were no limitations or restrictions on withdrawals for the IPAIT investments. The Waterworks' investment in the Iowa Public Agency Investment Trust is unrated.

The Waterworks has no investment policy as required by Chapter 12B of the Code of Iowa,

Note 3. Pension Plan

Plan Description - IPERS membership is mandatory for employees of the Waterworks, except for those covered by another retirement system. Employees of the Waterworks are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits - A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50% for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Note 3. Pension Plan (continued)

Contributions - Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2021, pursuant to the required rate, Regular members contributed 6.29% of covered payroll and the Waterworks contributed 9.44% of covered payroll, for a total rate of 15.73%.

The Waterworks' contributions to IPERS for the year ended June 30, 2021 were \$47,502.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2021, the Waterworks reported a liability of \$415,880 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Waterworks' proportion of the net pension liability was based on the Waterworks' share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2020, the Waterworks' proportion was 0.0059202%, which was a decrease of 0.000378% under its proportion measured as of June 30, 2019.

For the year ended June 30, 2021, the Waterworks' pension expense, deferred outflows of resources and deferred inflows of resources totaled \$63,806, \$79,379 and \$44,051, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Rate of Inflation (effective June 30, 2017)	2.60% per annum.
Rates of salary increase (effective June 30, 2017)	3.25 to 16.25%, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 2017)	7.00% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 2017)	3.25% per annum, based on 2.60% inflation and 0.65% real wage inflation.

The actuarial assumptions used in the June 30, 2020 valuation were based on the results of an economic assumption study dated March 24, 2017 and a demographic assumption study dated June 28, 2018.

Mortality rates used in the 2020 valuation were based on the RP-2014 Employee and Healthy Annuitant Tables with MP-2017 generational adjustments.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Note 3. Pension Plan (continued)

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Domestic equity	22.0 %	4.43 %
International equity	17.5	5.15
Global smart beta equity	6.0	4.87
Core plus fixed income	28.0	(0.29)
Public credit	4.0	2.29
Cash	1.0	(0.78)
Private equity	11.0	6.54
Private real assets	7.5	4.48
Private credit	3.0	3.11
Total	100.0 %	

Discount Rate - The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Waterworks will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payment to determine the total pension liability.

Sensitivity of the Waterworks' Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the Waterworks' proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the Waterworks' proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.00%) or 1% higher (8.00%) than the current rate.

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Waterworks' proportionate share of the net pension liability	\$ 693,445	415,880	183,146

IPERS' Fiduciary Net Position - Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Note 4. Other Postemployment Benefits

Plan Description - The City of Knoxville (City) operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. The Waterworks' employees are part of the City's insurance policy. Group insurance benefits are established under Iowa Code Chapter 509A.13. The City currently finances the benefit plan on a pay-as-you-go basis. For the year ended June 30, 2021, the Waterworks contributed \$100,354 and plan members eligible for benefits contributed \$25,326 to the plan. At June 30, 2021, no assets have been accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

OPEB Benefits - Individuals who are employed by the Waterworks and are eligible to participate in the group health plan are eligible to continue healthcare benefits upon retirement. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit rate subsidy.

Waterworks' employees accumulate a limited amount of earned but unused vacation and compensatory leave hours for subsequent use of or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the Waterworks until used or paid. The Waterworks' approximate liability for earned vacation and compensatory leave termination payments payable to employees at June 30, 2021 is \$61,870. The liability has been computed based on rates of pay in effect at June 30, 2021.

Note 6. Lease Agreements

The Waterworks is leasing antenna space on the water towers to communication providers. The length of the lease terms are five years, with options to extend for additional years at the option of the tenants. The lease terms contain provisions of monthly rent amounts and provisions for increases in rents.

The Waterworks leases a personal residence it owns. This lease is on a month to month basis.

The Waterworks received \$21,575 from tenants in fiscal year 2021 from these leases.

Note 7. Risk Management

The Waterworks is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 785 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual casualty operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses estimated for the fiscal year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300% of basis rate.

Note 7. Risk Management (continued)

The Pool also provides property coverage. Members who elect such coverage make annual property operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses, reinsurance premiums, losses and loss expenses for property risks estimated for the fiscal year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The Waterworks' property and casualty contributions to the Pool are recorded as disbursements from its operating funds at the time of payment to the Pool. The Waterworks' contributions to the Pool for the year ended June 30, 2021 were \$52,667.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$500,000 per claim. Claims exceeding \$500,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the Waterworks' risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location. Property risks exceeding \$250,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the Waterworks' risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the Waterworks' risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's funds and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred. As of June 30, 2021, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

The Waterworks also carries commercial insurance purchased from other insurers for coverage associated with workers compensation in the amount of in the amount of \$1,000,000 for each accident, \$1,000,000 memorandum limit, and \$1,000,000 each employee. The Waterworks assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The Waterworks also purchased coverage from another insurer for employee blanket bond in the amount of \$25,000.

Note 8. Water Sales Contracts

The Waterworks and the Marion County Water Association, Inc. (MCWA) entered into an agreement whereas the Waterworks will sell a maximum of 600,000 gallons of water per day to MCWA. The agreement is currently on a year to year basis. Currently the Waterworks sells water to MCWA at a rate of \$2.57 per thousand gallons for the first 1,000,000 gallons per month and \$2.49 per thousand gallons for the balance over 1,000,000 gallons per month.

The Waterworks and the Iowa Regional Utilities Association (IRUA) entered into an agreement whereas the Waterworks will sell a maximum of 100,000 gallons of water per day to IRUA. The agreement was entered into in 2016, and is for a term of 20 years. Currently the Waterworks sells water to IRUA at a rate of \$3.00 per thousand gallons.

Note 9. Commitments

The Waterworks has committed to reimburse a developer \$750 per lot up to 19 lots. The incentive is good for ten years beginning at the completion of the development. To receive the reimbursement the lot must be purchased, the residential customer has signed for service and water service is activated. Payments have been made, the first in February 2017, which starts the ten year period. There are 8 lots still available for reimbursement.

The Waterworks has an agreement for generator maintenance. The total amount owed in relation to the generator maintenance agreement will be \$8,723 over the next two fiscal years.

Note 10. COVID-19

In March 2020, the COVID-19 outbreak was declared a global pandemic. The disruption to businesses across a range of industries in the United States continues to evolve. The full impact to local, regional and national economies, including that of the Waterworks, remains uncertain.

To date, the outbreak has not created a material disruption to the operations of the Waterworks. However, the extent of the financial impact of COVID-19 will depend on future developments, including the spread of the virus, duration and timing of the economic recovery. Due to these uncertainties, management cannot reasonable estimate the potential impact to the Waterworks.

Note 11. Subsequent Events

The Waterworks has evaluated subsequent events through September 13, 2021, which is the date that the financial statement was available to be issued.

Note 12. Prospective Accounting Change

Governmental Accounting Standards Board has issued Statement No. 87, Leases. This statement will be implemented for the fiscal year ending June 30, 2022. The revised requirements of this statement require reporting of certain potentially significant lease liabilities that are not currently reported.

Note 13. Accounting Restatement

The beginning cash balances were restated to reflect the proper balances and the proper classification between funds. The restatement is as follows:

	Enterprise Fund	Agency Fund
Net position, June 30, 2020, as previously reported	\$ 2,337,262	42,561
Reclassification	42,561	(42,561)
Net position July 1, 2020, as restated	<u>\$ 2,379,823</u>	<u>-</u>

Other Information

KNOXVILLE MUNICIPAL WATERWORKS

BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCE -
BUDGET AND ACTUAL

OTHER INFORMATION

Year ended June 30, 2021

	Actual	Less Amounts not Required to be Budgeted	Net	Budgeted Amounts Original/Final	Final to Net Variance
Receipts:					
Use of money and property	\$ 50,520	-	50,520	48,480	2,040
Charges for service	4,457,985	2,638,015	1,819,970	1,732,000	87,970
Miscellaneous	104,126	-	104,126	21,200	82,926
Total receipts	4,612,631	2,638,015	1,974,616	1,801,680	172,936
Disbursements:					
Business type activities	4,976,856	2,638,015	2,338,841	3,213,808	874,967
Total disbursements	4,976,856	2,638,015	2,338,841	3,213,808	874,967
Change in balances	(364,225)	-	(364,225)	(1,412,128)	1,047,903
Balances beginning of year, as restated	2,379,823	-	2,379,823	1,957,113	422,710
Balances end of year	\$ 2,015,598	-	2,015,598	544,985	1,470,613

See accompanying independent auditor's report.

KNOXVILLE MUNICIPAL WATERWORKS

NOTES TO OTHER INFORMATION – BUDGETARY REPORTING

June 30, 2021

In accordance with the Code of Iowa, the Knoxville Municipal Waterworks (Waterworks) annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon classes of disbursements, known as functions, not by fund. The Waterworks' disbursements are budgeted in the business type activities function. During the year there were no budget amendments.

During the year ended June 30, 2021, disbursements did not exceed the amount budgeted.

KNOXVILLE MUNICIPAL WATERWORKS

SCHEDULE OF THE WATERWORK'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
FOR THE LAST SEVEN YEARS*
(IN THOUSANDS)

OTHER INFORMATION

	2021	2020	2019	2018	2017	2016	2015
Waterworks' proportion of the net pension liability	0.005920%	0.006298%	0.006098%	0.006251%	0.005750%	0.005771%	0.006017%
Waterworks' proportionate share of the net pension liability	\$ 416	365	386	416	362	285	239
Waterworks' covered payroll	\$ 470	479	458	467	413	395	394
Waterworks' proportionate share of the net pension liability as a percentage of its covered payroll	88.51%	76.09%	84.20%	89.24%	87.70%	72.11%	60.61%
IPERS' net position as a percentage of the total pension liability	82.90%	85.45%	83.62%	82.21%	81.82%	85.19%	87.61%

* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

See accompanying independent auditor's report.

KNOXVILLE MUNICIPAL WATERWORKS

SCHEDULE OF WATERWORKS CONTRIBUTIONS

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
FOR THE LAST TEN YEARS
(IN THOUSANDS)

OTHER INFORMATION

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Statutorily required contribution	\$ 48	44	45	41	42	37	35	35	34	36
Contributions in relation to the statutorily required contribution	(48)	(44)	(45)	(41)	(42)	(37)	(35)	(35)	(34)	(36)
Contribution deficiency (excess)	\$ -	-	-	-	-	-	-	-	-	-
Waterworks' covered payroll	\$ 503	470	479	458	467	413	395	394	396	443
Contributions as a percentage of covered payroll	9.44%	9.44%	9.44%	8.93%	8.93%	8.93%	8.93%	8.93%	8.67%	8.07%

See accompanying independent auditor's report.

KNOXVILLE MUNICIPAL WATERWORKS

NOTES TO OTHER INFORMATION – PENSION LIABILITY

Year ended June 30, 2021

Changes of benefit terms:

There are no significant changes in benefit terms.

Changes of assumptions:

The 2018 valuation implemented the following refinements as a result of a demographic assumption study dated June 28, 2018:

- Changed mortality assumptions to the RP-2014 mortality tables with mortality improvements modeled using Scale MP-2017.
- Adjusted retirement rates.
- Lowered disability rates.
- Adjusted the probability of a vested Regular member electing to receive a deferred benefit.
- Adjusted the merit component of the salary increase assumption.

The 2017 valuation implemented the following refinements as a result of an experience study dated March 24, 2017:

- Decreased the inflation assumption from 3.00% to 2.60%.
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.
- Decreased the discount rate from 7.50% to 7.00%.
- Decreased the wage growth assumption from 4.00% to 3.25%.
- Decreased the payroll growth assumption from 4.00% to 3.25%.

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL (unfunded actuarial liability) beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF A FINANCIAL STATEMENT PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees of the
Knoxville Municipal Waterworks:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statement of the Knoxville Municipal Waterworks, Knoxville, Iowa (Waterworks), as of and for the year ended June 30, 2021, and the related Notes to Financial Statement, which collectively comprise the Waterworks financial statement, and have issued our report thereon dated September 13, 2021. Our report expressed an unmodified opinion on the financial statement which was prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Waterworks' internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing our opinion on the effectiveness of the Waterworks' internal control. Accordingly, we do not express an opinion on the effectiveness of the Waterworks' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Evansdale Water Works financial statement will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We consider the deficiencies described in Part I of the accompanying Schedule of Findings as items I-A-21 and I-B-21 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Waterworks' financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the financial statement. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Waterworks' operations for the year ended June 30, 2021 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statement of the Waterworks. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Waterworks Responses to the Findings

The Waterworks' responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The Waterworks' responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the Waterworks' internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Waterworks' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Waterworks during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



Faller, Kincheloe & Co., PLC

September 13, 2021

KNOXVILLE MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2021

Findings Related to the Financial Statement:

INTERNAL CONTROL DEFICIENCIES:

I-A-21 Segregation of Duties

Criteria – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the Knoxville Municipal Waterworks (Waterworks) financial statement.

Condition – Generally, one or two individuals in the Waterworks has control over cash receipts listings, bank deposits and posting cash receipts to the cash receipts journal.

Cause – The Waterworks has a limited number of employees and procedures have not been designed to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect – Inadequate segregation of duties could adversely affect the Waterworks ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation – The Waterworks should review its control activities to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials, to provide additional control through review of financial transactions, reconciliations and reports.

Response – We will evaluate this and attempt to segregate duties as much as possible.

Conclusion – Response acknowledged.

I-B-21 Preparation of Financial Statements

Criteria - A properly designed system of internal control over financial reporting includes the preparation of an entity's financial statements and accompanying notes to the financial statements by internal personnel of the entity.

Condition - As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Cause - We recognize that with a limited number of office employees, preparation of the financial statements and accompanying notes to the financial statements is difficult.

Effect - The effect of this condition is that the year-end financial reporting is prepared by a party outside of the Waterworks. The outside party does not have the constant contact with ongoing financial transactions.

KNOXVILLE MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2021

Recommendation - We recommend that Waterworks officials continue reviewing operating procedures in order to obtain the maximum internal control possible under the circumstances to enable staff to draft the financial statements and accompanying notes to the financial statements internally.

Response – These are very technical issues that the average citizen would not understand. This issue relates to auditor independence issues, and we accept the risk associated with not being able to prepare these documents and apply accounting principles in accordance with an other comprehensive basis of accounting.

Conclusion – Response acknowledged.

INSTANCES OF NONCOMPLIANCE:

No matters were reported.

KNOXVILLE MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2021

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-21 Certified Budget - Disbursements during the year ended June 30, 2021 did not exceed the amount budgeted.
- II-B-21 Questionable Disbursement – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- II-C-21 Travel Expense - No disbursements of Waterworks money for travel expenses of spouses of Waterworks officials or employees were noted.
- II-D-21 Business Transactions - Business transactions between the Waterworks and Waterworks’ officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Brian Bailey, General Manager Spouse owns Up 'N Stitchz	Appearl	\$ 1,636

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with the above company would not represent a conflict of interest since total transactions were less than \$6,000 during the fiscal year.

- II-E-21 Restricted Donor Activity – No transactions were noted between the Waterworks, Waterworks’ officials, Waterworks’ employees and restricted donors in compliance with Chapter 68B of the Code of Iowa.
- II-F-21 Bond Coverage - Surety bond coverage of Waterworks’ officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- II-G-21 Board of Trustee Minutes – No transactions were found that we believe should have been approved in the trustee minutes but were not.
- II-H-21 Deposits and Investments – Instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Waterworks’ investment policy were noted.

The Waterworks does not have a written investment policy, as required by Chapter 12B.10B of the Code of Iowa.

Recommendation – The Waterworks should adopt a written investment policy, as required by the Code of Iowa.

Response – This was implemented in fiscal year 2022.

Conclusion – Response acknowledged.

KNOXVILLE MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2021

- II-I-21 Utility Rates - Chapter 388.6 of the Code of Iowa states that a utility may not provide use or services at a discriminatory rate, except to the City or its agencies. However, we noted that the Waterworks was providing reduced rate water service to another government who buys water for resale to its customers. This would appear to violate Chapter 388.6 of the Code of Iowa.

Recommendation – The Waterworks should ensure compliance with Chapter 388.6 of the Code of Iowa in relation to not providing utility use or service at discriminatory rates.

Response – We will review this issue with our legal counsel.

Conclusion – Response acknowledged.

- II-J-21 Check Retention – The fronts and backs of cancelled checks were not retained by the Waterworks, as required by Chapter 554D.114 of the Code of Iowa.

Recommendation – The Waterworks should retain the fronts and backs of the cancelled checks, as required by Chapter 554D.114 of the Code of Iowa.

Response – We will implement this recommendation.

Conclusion – Response acknowledged.